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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011

Docket No. N2012-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILLIAMS TO QUESTION POSED DURING MAY 9, 2012 ORAL CROSS-EXAMINATION

The United States Postal Service hereby provides the response of witness David Williams to a question posed at pages 2599-2600 during oral cross-examination in this docket on May 9, 2012. Citation to the question is provides; the question is then paraphrased and followed by the response of witness Williams.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Tr. Vol. 8 at page 2599 -- Chairman Goldway: At the previous hearing, Mr. Williams indicated that he would prepare a report for us on hubs. Please provide that report.

RESPONSE:

To a great extent, witnesses Neri and Martin, in cross-examination subsequent to mine, have provided an overview of the relationship between the AMP process and the role of hub operations in the postal network. In summarizing our collective testimonies, I offer some additional observations below.

The use of hub operations by the Postal Service is not new. Such operations have long been in use and are referred to by many different names such as cross-dock facility, transfer facility, surface transfer center (STC) or container transfer operation. Hub activities are a key function of all network facilities including processing and distribution centers (P&DC)s, Logistics and Distribution Centers (L&DC)s, Network Distribution Centers (NDCs), etc. In some cases today, cross-dock type operations exist in non-network facilities such as Post Offices.

To improve efficiency and timeliness in the surface movement of mail between processing plants, the Postal Service has long maintained mail container transfer operations within Sectional Center Facility service areas to meet applicable service standards. *See* Tr. Vol. 2 at 257, 264-65, 279-80, 262; Tr. Vol. 8 at 2591-92. Such transfer operations are often conducted at existing Processing &

Distribution Centers, Network Distribution Centers, Post Offices or other postal facilities that has suitable dock and workroom space. *See* Tr. Vol. 2 at 161; Tr. Vol. 8 at 2593. They also may be conducted at contracted facilities such as Surface Transfer Centers (STCs). Thus, these transfer operations may be one of many postal functions performed at locations where they exist, or they may be the principal (or even sole) activity at the location in question.

The nature of such operations may vary from one SCF service area to the next, depending on the operational and transportation needs of the plant or plants they serve. Hub operations are intended to make plant-to-plant transfers of mail more efficient in several ways. They create opportunities to transport full(er) truckloads of mail containers from various origins to a point where their contents will be cross-docked and consolidated with other mail in a full(er) truck headed to a common destination. *Id*. at 264-65. Hubs create opportunities for a cluster of mail processing plants in relatively close proximity to each other in a sprawling metropolitan area (such as Washington, D.C. and its suburbs) to cross-dock and consolidate containers to more efficiently transport mail from plant to plant, and between plants and post offices. .The objective in establishing hubs at every level is to consolidate the movement of containers and pull transportation miles (and associated costs) out of the postal system. Tr. Vol. 2 at 264-65. Such consolidation improves opportunities to better match the arrival of mail with processing operations at receiving facilities.

Thus, for instance, the operation of a surface transfer hub in Capitol Heights MD can serve as a drop-off point for trucks from such origins as Baltimore MD, Philadelphia PA, Brooklyn NY, Columbus OH, Greensboro NC or Atlanta GA, and numerous other locations, all of which may be carrying mail destined for each of the five Washington DC area mail processing plants. Such a hub allows for cross-docking and consolidation of containers of mail that both originates and destinates in the DC area. Rather than each origin sending a truck directly to each of the five DC area plants or sending a truck that makes a separate delivery to each DC area plant, hub operations improve transportation operations and reduce transportation costs. This reduces the number of trucks that might otherwise need to navigate the most congested traffic routes in a given metropolitan area. Hubs exist in the current postal network to exploit opportunities to reduce costs below that which would be generated by reliance on direct plant-to-plant transportation.

Likewise the Duluth MN AMP consolidation plan in USPS Library Reference N2012-1/73 proposes that the cross-dock continue in the Duluth facility to serve as a drop-off point for trucks to and from numerous small town Wisconsin post offices. Mail will then be consolidated into fewer containers and placed on surface trips going to the St. Paul MN P&DC. Processed mail returning to these post offices for delivery will be sent to the Duluth facility, where it will be put on trucks which service these post offices. The purpose of this type of operation is to avoid the use of many trucks from St. Paul to each of these post offices which

would only be partially full. Consolidating the mail onto fewer trucks going into Duluth and then smaller trucks which service these delivery units results in improved vehicle space utilization, fewer total miles traveled and reduces costs. Whether the Duluth P&DC will be the permanent location of these cross-dock operations has not been determined. An alternate location could be chosen if the cost of procuring and operating such a space would result in decreased costs.

It is worth emphasizing that network rationalization does not alter the significance of the long-standing subordinate role that hubs play in various localities in which they operate. If a particular plant is closed or takes on new responsibilities, hub operations that currently serve that plant may be discontinued, relocated or altered. Or they may experience no material change.

It has been observed that hub operations are not explicitly identified in all Area Mail Processing (AMP) plant consolidation proposals. The transportation and workhour estimates included within these documents would reflect the associated costs and savings associated with these operations. The fact that these operations are not explicitly identified in all cases merely reflects the subordinate status of hubs and the general absence of a necessity to particularly identify them when examining whether to consolidate mail processing operations. Whether or not mail processing consolidation occurs, hubs will exist to the extent that they can reduce transportation costs that would otherwise be incurred.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILLIAMS TO QUESTION POSED DURING CROSS-EXAMINATION

The determination to establish, change or eliminate hub operations associated with mail processing plants is a determination made by local, District, and Area mail processing and transportation managers responsible for managing inter-relationships among those plants, in consultation with headquarters. Centralized rationalization of the network as a whole does not require headquarters to micro-manage how many hubs should be operated or where they should be located. Tr. Vol. 8 at 2592-93. The number and location of hubs can change over time. Therefore, it is only logical that the existence and location and number of hubs would be adjusted by local management to suit a new network configuration. However, the determining factors regarding hubs in the future will continue to be whether their existence would reduce transportation costs in the new network configuration and permit the achievement of applicable service standards.

The interest in hubs in this case seems to have several principal sources. The first appears to be an interest in preserving as many mail entry points as possible for periodicals, as the number of mail processing plants decreases in the future network. It should be emphasized that, as in the current network, hub locations in the future will operate as mail entry points to the extent that the facility housing the hub also happens to house a Business Mail Entry Unit.

A second source of interest seems to spring from an apparent concern that, relatively few Area Mail Processing studies explicitly incorporate proposals to establish or modify hubs or reflect analysis of potential hubs. See Tr. Vol. 8 at

2591. I conceded as much in my testimony at Tr. Vol. 2 at 342. However, it should be emphasized that existing or potential hubs are routinely referenced in AMP studies. Their feasibility of hubs (whether they currently exist or are only contemplated) after a network change is routinely not contemplated until transportation changes are being planned during post-decision AMP implementation. Tr. Vol. 8 at 2603-05. It is commonly the case that a consolidation may result in no material change in existing hub operations. Tr. Vol. 5 at 2084. Accordingly, potential changes in hub operations are often not viewed as significant enough to warrant more than a passing reference, if that, in an AMP proposal. Tr. Vol. 5 at 2121.

There also appears to be some concern that changes in hub operations resulting from network rationalization could generate significant additional implementation costs that are unaccounted. This expectation appears borne of a genuine concern for cost accounting, but also appears to spring from a misunderstanding of the AMP decision-making process and the underlying rationale for the establishment of hubs. Some attention has been focused on the fact that little hub-related operational or cost data are reflected generally in AMP decision packages; however, a cost-generating hub proposal for the Boston MA area was given considerable attention in conjunction with several related AMP decisions, raising the apparent specter that an unknown number of similar hubs may materialize when other AMP decisions are implemented, each generating significant additional unaccounted costs.

Hub determinations do not drive AMP plant consolidation business cases and only affect one aspect of the manner in which an AMP consolidation may be implemented. Although not explicitly identified, these costs, if applicable, are accounted for in AMP studies in the workhour and transportation proposals. Whether or not an AMP study reflects a specific hub proposal, if the mail processing plant consolidation is approved, the feasibility of establishing hubs will be explored during the AMP implementation process and hubs will be activated (or modified if already existing) if doing so will reduce the transportation costs otherwise expected to be incurred.

Given that hubs are established and operated for the purpose of reducing transportation costs, it is counter-intuitive to presume that the absence of a complete future hub-related cost-benefit analysis in each of the various AMP decision packages reflects a failure to account for significant additional future AMP implementation costs. In those cases where an AMP proposal assumes the necessity to establish a hub where one currently does not exist and the need to incur significant one-time costs in doing so,[1] the overriding consideration in determining whether to establish such a hub will be the same as exist today: assessing whether such a hub reduces transportation costs that would otherwise be incurred and supports achievement of applicable service standards. Accordingly, it is unreasonable to expect the Postal Service to estimate the extent to which hubs will reduce those transportation costs before the Postal

[1] As in the case of the cluster of consolidations planned in the Boston MA area.

Service has completed the post-AMP decision process of determining the transportation contracts it will execute or modify, and determined what the baseline transportation costs for affected network nodes will be. Whether existing hubs continue or are relocated, or new ones are created depends on what transportation costs are estimated to be incurred when a consolidation is implemented. A decision to then establish a new hub or modify an existing one in conjunction with that plant consolidation is driven by whether it results in a net reduction in transportation costs and will achieve service standards.

As witness Martin testified, in the AMP consolidation planning and implementation process, local, District, and Area offices tend to act conservatively in establishing AMP transportation plans. Tr. Vol. 8 at 2590. One of the virtues of the AMP Post-Implementation Review (PIR) process is that it presents opportunities for the field to re-assess the original transportation plan after the AMP implementation "dust has settled." As local managers gain confidence that they have worked through the kinks of implementation, I expect the PIR process to reflect that they will be more receptive to the operation of less direct transportation and the establishment of more cost-effective hub operations will permit the achievement of the service standards for which they are being held accountable.